

## Message Text

SECRET

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ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 NSC-10 NSCE-00 CIAE-00 INR-10

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PRS-01 SAM-01 SPC-01 DRC-01 /053 W

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R 021345Z MAR 74

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5546

S E C R E T CAIRO 1023

LIMDIS

E.O. 11652: GDS

TAGS: BEXP, EG

SUBJ: PROGRESS OF BECHTEL NEGOTIATIONS

1. BECHTEL TEAM OF NEGOTIATORS, HEADED BY VICE PRESIDENT JOHN O' CONNELL RETURNED TO CAIRO FEBRUARY 21 TO CONTINUE NEGOTIATIONS WITH SUMED PIPELINE COMPANY. NEGOTIATIONS WERE HELD IN CAIRO, AND WERE HEADED, ON BEHALF OF SUMED, BY ENGINEER MOHAMMAD KRUSH WHO NOW PRESIDENT OF NEWLY INCORPORATED COMPANY.

2. THE FIRST TWO MEETINGS HELD ON FEBRUARY 22 AND 23 WERE HELD IN A NON-CONSTRUCTIVE ATMOSPHERE WITH CONTINUAL HECKING ON THE PART OF KRUSH, AND DR. TAHIR AMIN, THE CHAIRMAN OF THE EGYPTIAN INDUSTRIALIZATION ORGANIZATION, AND ONE OF THE EGYPTIAN BOARD MEMBERS ON SUMED. ON FEBRUARY 25 O'CONNELL PRESENTED THE SUMED BOARD WITH TWO ALTERNATIVES IN AN EFFORT TO BREAK THE IMPASS. THEY WERE:

A. BECHTEL WOULD UNDERTAKE TO COMPLETE THE PROJECT FOR A SET FEE OF 10 MILLION DOLLARS. ALL OTHER COSTS WOULD BE ON AN OPEN ENDED BASIS.

B. BECHTEL WOULD BUILD THE LINE FOR A FLAT GUARANTEED FEE OF 5 MILLION DOLLARS. A 42 MILLION DOLLARS PRICE INCREASE WOULD

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BE AGREED UPON AS OF FEBRUARY 25, ON THE BASIS OF THE PRICE

INCREASES WHICH HAVE TAKEN PLACE BETWEEN THAT DATE AND SEPTEMBER 30, 1973, WHEN THE LETTER OF INTENT WAS SIGNED BY BECHTEL TO BUILD THE PROJECT. ALL PRICE INCREASES OR DECREASES WOULD BE REVIEWED BY JUNE 1, 1974 (THAT DATE BEING THE DATE BY WHICH BECHTEL EXPECTS TO HAVE MADE THE BULK OF ITS COMMITMENTS TO ITS SUB-SUPPLIERS AND CONTRACTORS). IF SAVINGS ARE EFFECTED, THEN THEY WOULD BE SPLIT BETWEEN BECHTEL AND SUMED ON A FORMULA TO BE SET BY THE SUMED COMPANY. WHILE THIS SECOND ALTERNATIVE WAS ALSO AN OPEN ENDED CONTRACT, BECHTEL THIS WOULD PROVIDE AN INCENTIVE FOR BECHTEL TO BRING OFF THE PROJECT WITH A SMALL FEE FOR ITSELF AND TO KEEP THE PRICES AS LOW AS POSSIBLE. PLUS THIS WOULD EFFECT AN EXTENSION OF THE DECEMBER 14, 1973 CONTRACT.

3. ON THE EVENINGS OF FEBRUARY 26 AND 27, TWO EXTREMELY GOOD MEETINGS TOOK PLACE, WITH ENGINEER KRUSH DEMONSTRATING A DEGREE OF CONSTRUCTIVENESS WHICH THE BECHTEL TEAM HAD NOT EXPERIENCED DURING THE COURSE OF THE NEGOTIATIONS. KRUSH OPTED FOR THE SECOND ALTERNATIVE AS OUTLINED ABOVE, AND REQUESTED THAT BECHTEL REWRITE THE CONTRACT IN ORDER TO INCORPORATE THESE FEATURES. HE THEN WILL PRESENT THESE AMENDMENTS TO THE MEETING OF THE SUMED COMPANY BOARD WHICH IS TO BE HELD ON MARCH 2D, AND WILL BE ATTENDED, AMONG OTHERS BY THE MINISTERS OF PETROLEUM FROM SAUDI ARABIA, KUWAIT, ABU DHABI, AND POSSIBLY QATAR, AS WELL AS BY ALL OF THE EGYPTIAN BOARD MEMBERS.

4. PENDING THE OUTCOME OF THIS MEETING, MOST OF THE SENIOR MEMBERS OF THE BECHTEL TEAM HAVE LEFT THE COUNTRY, BUT ARE REMAINING IN THE MIDDLE EAST. BECHTEL HAS LEFT TWO OF ITS LAWYERS, PLUS ROBERT BOEBINGER, CHIEF OF THE BECHTEL OFFICE IN BEIRUT, TO CONTINUE CONTACT WITH THE SUMED COMPANY. BOEBINGER HAS SIGNING AUTHORITY FOR BECHTEL AND IS AUTHORIZED TO SIGN THE CONTRACT IF IT RESOLVED AS A RESULT OF THE SUMED BOARD MEETING.

5. SUMED OFFICIALS ALSO INDICATED THEY NOW READY TO PROVIDE NECESSARY LETTERS OF CREDIT. THEY ALSO HAVE AGREED TO DROP SIDE LETTER DEALING WITH POSSIBLE INTERFERENCE BY US GOVERNMENT FROM CONTRACT.

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